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# Industrial and Banking Privatization in Western Europe: Some Public Policy Paradoxes

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Wright: *Industrial and Banking Privatization in Western Europe: Some Public Policy Paradoxes*

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# Jean Monnet Chair Papers

# Industrial and Banking Privatization in Western Europe: Some Public Policy Paradoxes

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## Introduction*

For social scientists - and not only economists[1] - the privatization programmes of Western Europe provide a particularly rich field of investigation, in order to assess the political, electoral, social, and even cultural impact of a major public policy[2]. Privatization has raised profound philosophical and moral questions about property rights, about the concept of the state, about the relationship between market, state and society, and about the nature of public goods. And these questions have come to haunt the courts and public policy makers. For specialists of public policy, privatization has also furnished material to explore the validity of rational choice theories, theories of regulation, interest group theories, new institutionalism as well as the arguments relating to policy networks and policy communities[3].

The privatization programmes also enable us to illustrate some of the key features of public policy, and it is this aspect of the programmes which forms the basis of this article. Its particular focus is the policy paradox, and its major argument is that privatization has often been presented as a panacea, but it has given rise to several paradoxes which suggest that it may be as problematic as nationalisation for public decision makers. Some of the paradoxes are rooted in the peculiar characteristics of specific privatization programmes, and some may be only temporary. Others, however, may prove to be inherent in the process itself, and may be a source of permanent difficulty for governments.

* This paper is scheduled to appear in Italian in *Stato e Mercato*

1 The best single work, though now somewhat dated, on the economics of privatization is John Vickers and George Yarrow, *Privatization: An Economic Analysis*, Cambridge, Mass., MIT Press, 1988.

2 See particularly John Ernst, *Whose Utility? The Social Impact of Public Utility Privatization and Regulation in Britain*, Buckingham, Open University Press, 1994; and Peter Saunders and Colin Harris, *Privatization and Popular Capitalism*, Buckingham, Open University Press, 1994.

3 See, for example, Ellen M. Pint, 'Nationalization and Privatization: A Rational Choice Perspective on Efficiency', *Journal of Public Policy*, 10, 3, pp. 267-298; Jeffrey R. Henig, Chris Hammett and Harvey Feigenbaum, 'The Politics of Privatization: A Comparative Perspective', *Governance*, 1, October 1988, pp. 442-468; Jeremy Moon, J.J. Richardson and Paul Smart, 'The Privatization of British Telecom: A Case Study of the Extended Process of Legislation', *European Journal of Political Research*, Vol. 14 (3), 1986, pp. 339-358; Joel Wolfe, 'Reorganising Interest Representation: A Political Analysis of Privatization' , in Richard E. Foglesong and Joel D. Wolfe, *The Politics of Economic Adjustment*, New York, Greenwood, 1989, pp. 3-24; Abigail Melville, 'Power, Strategy and Games: Economic Regulation of a Privatized Utility', *Public Administration*, Vol. 74, autumn 1994, pp. 385-408.

The article is divided into three main parts: a brief summary of the programmes; an equally brief section on the main public policy concepts highlighted by those privatization programmes; a final section on the policy paradoxes and a tentative explanation of their emergence.

## I. The Privatization Programmes[4]

Privatization is a world-wide phenomenon which has spread from Pinochet's Chile to communist China. Figures on the scale of privatization vary enormously. According to one set of figures privatization in 1992 took place in over fifty countries raising $69 billion, bringing the world total from 1985 to early 1993 to $328 billion (*Economist*, 21 August 1993; *Expansion*, 7-20 October 1993). According to another source, the world volume of new privatization issues in 1993 totalled £24.3 billion, and between £33 billion and £40 billion were due to pour onto the stock exchanges in 1994 (*Euromoney*, 5 June 1994). Even with the slow down caused by the depressed state of the financial markets European privatization, issues were expected to raise some

4 The literature on privatization is vast. See, particularly, Raymond Vernon (ed.), *The Promise of Privatization: A Challenge for US Policy*, New York, Council on Foreign Relations, 1988; David Clutterbuck (ed.), *Going Private: Privatizations Around the World*, London, Mercury Books, 1991; Ezra E. Suleiman and John Waterbury (eds.), *The Political Economy of Public Sector Reform and Privatization*, Boulder, Col., Westview Press, 1990; Dennis Swann, *The Retreat of the State: Deregulation and Privatization in the UK and US*, Ann Arbor, University of Michigan Press, 1988; E.S. Savas, *Privatizing the Public Sector: How to Shrink Government*, Chatham, N.J., Chatham House, 1982; William T. Gormley (ed.), *Privatization and its Alternatives*, Madison, University of Wisconsin Press, 1991; W.P. Glade (ed.), *State Shrinking: A Comparative Enquiry into Privatization*, Austin, Texas, Institute of Latin American Studies, 1986; D.J. Gayle and J.N. Goodrich (eds.), *Privatization and Deregulation in Global Perspective*, London, Pinter Publishers, 1990; P.W. Macavey *et al*, *Privatization and State-Owned Enterprises*, London, Kluwer Academic Publications, 1989; Steve H. Hanke (ed.), *Prospects for Privatization*, New York, Academy of Political Science, 1987; Elizabeth E. Bailey and Janet R. Pack (eds.), *The Political Economy of Privatization and Deregulation*, Aldershot, Elgar, 1995; Thomas Clarke and Christos Pitelis (eds.), *The Political Economy of Privatization*, London, Routledge, 1993; Peter M. Jackson and Catherine M. Price (eds.), *Privatization and Regulation: A Review of the Issues*, London, Longman, 1994; Fernando Targetti, *Privatization in Europe: West and East Experiences*, Aldershot, Dartmouth, 1992; John Donahue, *The Privatization Debate*, New York, Basic Books, 1989; P. MacAvoy, W. Stanbury, G. Yarrow and R. Zeckhauser (eds.), *Privatization and State-Owned Enterprises*, Boston, Kluwer Academic Publishers, 1989; J.J. Richardson (ed.), *Privatization and Deregulation in Canada and Britain*, Aldershot, Dartmouth, 1990; Roman Fryaman and Andrej Rapaczynski, *Privatization in Eastern Europe: Is the State Withering Away?* CEU Press, 1994; M. Pirie, *Privatization in Theory and Practice*, Aldershot, Wildwood House, 1988.

$40 billion in 1995. Problems of calculating the extent of the privatization programmes lie in the fact that industrial privatization takes many forms - from sales of subsidiaries and minority stakes to sales of majority stakes and even total privatization - and employs many methods, including stock market flotation, off-market sales to other firms, and management buy-outs.

Western Europe has not been spared the 'privatization craze'[5]: between 1994 and 1999 privatization in Western Europe is expected to raise between $80 billion and $150 billion, according to the source used (*Economist*, 21 August 1993).

The timing, pace, extent and nature of the privatization programmes vary enormously from country to country - and this is scarcely surprising because the size, structure and nature of the public sectors to be privatized differ considerably, because the pressures to privatize vary in time and in intensity, and because the will and capacity to privatize reveal significant differences. Some of these factors will be touched upon in this article. The most timid privatizers to date have been Sweden and Greece where electoral defeats of the Right resulted in the abandonment of ambitious programmes: the Swedish $10 billion programme embraced steel, ore-mining, electric power and the powerful multi-product holding company Procordia. However, in both countries, some privatization was implemented (19 percent of Procordia was sold in 1987, and the Greek government returned to the private sector a number of recently acquired firms), and more moderate programmes are likely to resume (the new PASOK government in Greece is trying - though not very successfully - to sell 25 per cent of its public sector telecommunications monopoly[6]).

Middle-range privatizers include Belgium (which has sold a number of small firms and partially privatized several major companies, including RTM, the shipping company, Distrigaz, the gas utility, and Sabena, the national flag carrier), the Netherlands (which has only a small public industrial sector but which it is progressively, if partially, privatizing - hence the part sales of DSM, the chemical giant, KLM, the state airline, and Koninklijke PTT Nederland, the post and telephone monopoly), and Spain (which has seen the disposal of more than twenty firms belonging to Patrimonio and INI, the two major state industrial holdings, as well as the sale of shares, worth $8 billion between

5 Vincent Wright (ed.), *Privatization in Western Europe: Pressures, Problems and Paradoxes*, London, Pinter Publishers, 1994. This contains articles on the major privatization programmes and a short bibliographical guide for each country.

6 George Pagoulatos and Vincent Wright, 'Privatization in Southern Europe', (forthcoming).

1986 and 1994, in Repsol, the oil company, Argentaria, the financial group, Telefonica and Endesa, the electricity utility). Italy also belongs to the ranks of middle-range privatizers, having, for most of the 1980s, been a distinctly timid one: since only thirty smaller companies were sold to the private sector. The real change came with the Amato and Ciampi governments, starting in 1990 with measures which set out the procedures to enable state-controlled and mutually-owned savings banks to transform themselves into joint stock companies, and which allowed state-owned banks to float up to 49 per cent of their equity on the stock market. The state holding companies IRI, ENEL, INA and ENA were converted into joint stock companies, with the Treasury as sole shareholder. The companies designated for privatization - whole or partial - include several banks and insurance companies, Agip (oil and gas exploration), Nuovo Pignone (turbines and engineering), SNAM (gas pipelines), and Stet (telecommunications). The Amato and Ciampi programmes involved the sale of $10 billion - massively ambitious in a country such as Italy, with its ephemeral governments, multiple political obstacles, weak financial markets and lack of investment culture. Yet, inspite of widespread scepticism, several political battles and the fall of both governments, the programme has proved relatively successful. The first big flotation was the oversubscribed public offer for 67 per cent of Credito Italiano in December 1993: it raised 1,900 billion lire. This was followed by the sale of 33 per cent of Istituto Mobiliare Italiano in January 1994 for 2,400 billion lire, of 54 per cent of Banca Commerciale Italiana in February 1994 for 2,800 billion lire, and 47 per cent of INA, the insurance group, in June 1994 for 4,500 billion lire. There were also a number of important trade sales (ENI, for example, sold about 60 firms between 1992 and 1994 and IRI disposed of the last parts of its once mighty steel sector in spring 1995). Future privatization candidates include ENEL, Stet, ENI, the last fragments of SME, Agip, and SNAM. Significantly, by the end of 1994, the committee of the Senate agreed on the framework for the independent regulation of public utilities. It seems clear that, whatever the political difficulties, the budgetary needs of the state and the capital requirements of the enterprises will ensure that Italy will remain, however fitfully, a privatizer[7].

The radical privatizers in Western Europe are Germany, Portugal, France, and, of course, the United Kingdom. The Kohl government, after a long phase of indifference and scepticism, came to dispose of the central state's shareholding in Veba (energy), Volkswagen, Vega (metals and chemicals) and Salzgitter

7 See Sabino Cassese, La nuovo costituzione economica, Rome, Editori Laterza, 1995, pp. 91-118.

(steel and engineering), and the public stake in Lufthansa, the national airline was reduced from 51 to 36 per cent in 1994, and is scheduled to disappear entirely. More importantly, it has now overcome all the obstacles, constitutional and political, which prevented the privatization of Deutsche Telekom. The privatization of the German telecommunications giant will represent one of the biggest financial operations in post-war Europe and is scheduled to take place in at least two stages. Germany's claim to be a radical privatizer rests also on its plans to privatize part of the postal services and sell part of the railways to the *Länder*, and on its rapid disposal by early 1995 of all but 1,392 of the 13,200 public firms acquired in East Germany at the time of unification[8].

The centre right government of Cavaco Silva, in power for over ten years in Portugal, was an enthusiastic and radical privatizer from the outset. The 1986 privatization programme lists 60 major directly state-owned companies and 450 indirectly owned to be transferred to the private sector. However, much of the public sector was protected by the Constitution which had been drawn up in the early revolutionary days of democratic transition and which declared that nationalisation represented an 'irreversible victory of the working class'. It took several years of patient negotiations with the socialist opposition to pass the necessary constitutional amendments. The effective implementation process began in 1989 with the sale of 49 per cent of Banco Totta e Acores, the country's biggest bank. After some difficulties (for example, the failure in 1993, through lack of buyers to sell a bank, a cement producer and a steel company), the programme was accelerated in 1993 and 1994 when stakes in telecommunications, the important cement industry, banking, insurance, and the gas and electricity utilities were sold. In 1994, the government raised over Esc. 200 billion ($1.1 billion), and by early summer 1995 plans for the privatization of Portugal Telecom, of the state-owned water industry and of part of Portucel (a paper pulp and packaging group which alone accounts for 2 per cent of the country's exports) were well advanced.

The privatization of subsidiaries of public-sector groups has been a constant feature of French state-managers' strategies. It took place during the Giscard d'Estaing presidency of 1974 to 1981 and under the socialist governments of the Mitterrand presidency of 1981 to 1986. These socialist governments also devised a variety of means to introduce private capital into public enterprises. However, it was not until the right-wing election victory and the appointment of the Chirac government in 1986 that radical privatization was pursued. The

8 On the role of the *Treuhand*, the body charged with privatizing these firms, see the special issue of *Aus Politik und Zeitgeschichte*, 44, 28 October 1994.

Chirac programme envisaged the total privatization of 65 major companies which involved, with subsidiaries, a total of 1,454 firms and 755,000 employees. By the time it was brought to a halt, as a result of the stock market crash of October 1987, eleven flotations had taken place, including those of eight major groups (Saint Gobain, Paribas, CGE, Crédit Commercial de France, Havas, Société Générale, Suez and TF1, the television channel). There were also three off-market sales. The programme represented a third of that initially planned, raised FF 85 billion and increased the number of shareholders from 1.2 million to 7 million. Radical privatization was brought to an official halt with the re-election of Mitterrand in May 1988 and the election victory of the socialists in the following month. Partial privatization, however, continued, with the sale of subsidiaries, the sale of FF 8 billion worth of minority stakes in major state groups, and the recapitalising of public firms with private capital. Joint ventures and capital swaps were also encouraged between national public enterprises and foreign private groups (BNP with Dresdner Bank, Bull with NEC and IBM, Renault with Volvo). The Balladur government, appointed in the wake of the Right's election victory of 1993, extended and radicalized the Chirac government's programme of 1986. The $50 billion programme included not only those twelve groups which had not been privatized in 1986, but also nine new enterprises, including Air France, the national airline, Aerospatiale, the defence contractor, Renault, the car manufacturer which had been nationalised by the de Gaulle government at the time of the Liberation, SEITA, the state tobacco monopoly, and Usinor-Sacilor, the steel group[9].

Several major problems faced the Balladur government: the financial state of many of the *privatisables*; political and worker opposition to restructuring and privatization (the cases, notably, of Renault and of Air France); the depressed state of the Bourse and of the financial markets in general. However, several major flotations took place: Banque Nationale de Paris, Rhône-Poulenc, Union des Assurances de Paris, followed in February 1994 by the sale of 37 per cent of Elf-Aquitaine which raised nearly FF 35 billion bought by over three million shareholders, in the country's biggest ever privatization issue. This was quickly succeeded, in May 1994, by the FF 20 billion sale of 50 per cent of Union des Assurances de Paris, the country's biggest insurance

9 On privatization in France see Michel Durupty, *Les Privatisations en France*, Paris, Documentation Francaise, 1988; Abdelilah Hamdouch, *L'Etat d'Influence: Nationalisations et Privatisations en France*, Paris, Presses du CNRS, 1989; Edouard Balladur, *Je crois en l'homme plus qu'en l'Etat*, Paris, Flammarion, 1987; Edouard Corntreau (ed.), *Privatisations: l'art et la manière*, Paris, L'Harmothen, 1986; Mairi Maclean, 'Privatization in France 1993-94: New Departures, or a case of *plus ça change*', *West European Politics*, Vol. 18, No. 2, April 1995, pp. 273-290.

group. By spring 1995, an important tranche of Renault (worth $2,048 million) and the whole of the SEITA (worth $700 million), the tobacco monopoly, had also left the public sector. In all, the Balladur government had raised FF 94.4 billion, inspite of all the problems. The election of Chirac to the Presidency and his appointment of Juppé to the Premiership appeared to give added impetus to the privatization drive. Within two weeks of his appointment Juppé announced the early privatization of Usinor-Sacilor, and declared his hope of raising FF 50 billion in total privatization receipts to help reduce the budget deficit and finance job creation schemes.

By far the most extensive privatization programme has been that of the United Kingdom[10]. By the time of the 1993 election the Conservative government proudly boasted that it had transferred 46 major companies and over 900,000 employees to the private sector, raising £55 billion and creating eleven million new shareholders. The programme embraced not only firms in the international competitive environment such as Jaguar and Rover, the car manufacturers, but also defence related industries (British Aerospace and Royal Ordnance), 'strategic' industries such as BP and Britoil, the national flag carrier (British Airways), the steel giant British Steel, the national airports, and the public utilities of gas (British Gas which was sold as a monopoly), water (split into ten regional monopolies), electricity (sold as twelve regional monopolies) and telecommunications (British Telecom which was sold with its dominant market position intact). In 1979, nationalised industries accounted for 9 per cent of the country's GSP - a figure which had shrunk to 3 per cent by early 1994 when only a minority stake in the electricity generating industry, the Post Office, British Rail, the nuclear energy sector and a few mines belonging to British Coal remained in the public sector. The remaining 40 percent stake in National Power and Power Gen was disposed of in March 1995, British Coal was privatized, in controversial circumstances, at the end of 1994, and most of the nuclear energy industry was prepared for privatization for late 1995. However, the partial privatization of the Post Office was thrown out by the House of Commons in 1994 after a revolt of a group of Conserva-

10 On the UK experience see J. Kay, C. Mayer and D. Thompson (eds.), *Privatization and Regulation: the UK Experience*, Oxford, Clarendon Press, 1986; Cosmo Graham and Tony Prosser, *Privatizing Public Enterprises*, Oxford, Clarendon Press, 1990; R. Fraser and M. Wilson, *Privatization: the UK Experience and International Trends*, Harlow, Longman, 1988; V. Ramanadham (ed.), *Privatization in the United Kingdom*, London, Routledge, 1988; D. Steel and D. Heald, *Privatizing Public Enterprises: Options and Dilemmas*, London, RIPA, 1984; K. Wiltshire (ed.), *Privatization: the British Experience*, London, Longman, 1987; C. Veljanowski, *Selling the State*, London, Weidenfeld and Nicolson, 1987; Mathew Bishop, John Kay and Colin Mayer, *Privatization and Economic Performance*, Oxford, Oxford University Press, 1994.

tive members, and the privatization of British Rail is a technical nightmare and is behind schedule. Nevertheless, inspite of these recent problems, the British privatization remains awesome in its dimensions, since it has involved the biggest transfer of property in the country since the dissolution of the monasteries by Henry VIII, a major reshaping of state-industry relations, and the rise of new modes of economic regulation (see below).

The trend in Western Europe is clear: everywhere the pace and extent of privatization is accelerating, and its nature is becoming more radical. Yet, the picture remains a varied one, both in the extent and nature of the programmes, and this variety, together with the reasons for the variety, helps to explain some of the paradoxes of privatization described later in this article.

## II. The Major Policy Features of Privatization

The various privatization programmes have admirably illustrated several important interconnected features of public policy making. They are worth very briefly outlining, because they, together with the differing character of privatization programmes across Western Europe, help to explain the policy paradoxes which are the principal focus of this article.

- *policy panacea*: for its apologists, privatization is a means of shifting the boundary between public and private in favour of the latter, of combating the semi-collectivist consensus of the post-war years, of tapping individual and corporate enterprise and initiative, of increasing consumer choice, of constructing a property-owning democracy, of facilitating rationalisation, liberalisation and globalisation, of improving efficiency by enhancing competition, of strengthening national industry, of sensitising the mass of new shareholders to the exigencies of the market place, of solving the vexed relationship between the state and its public-sector managers, of weakening the trades unions (traditionally powerful in the public sector), of enabling enterprises more easily to raise capital on the international capital markets, of expanding domestic stock exchanges, and, of course, of raising revenues for hard-pressed governments. Thus, ideological, economic, managerial, political and financial reasons are forwarded by advocates of privatization - although the mix and intensity of conviction differs from country to country.

- *policy convergence*: a tendency for industrialised states to develop similarities in structures, policies, processes and performance[11]. Driven by convergent pressures

11 Clark Kerr, *The Future of Industrial Societies: Convergence or Continuing Diversity?*, Cambridge, Mass., Harvard University Press, 1983, p. 3.

- liberalisation, internationalisation, Communitarianisation (the impact of the European Union), technological change and the budgetary needs of governments and firms - we are beginning to see somewhat convergent policy responses: *all* Western European governments have privatization programmes or ambitions. The process of convergence is taking place through *elite networking* (the impact of transnational 'knowledge based' or 'epistemic communities'), through *harmonization* (the influence of international or intergovernmental regimes such as the European Union), through *emulation* (the influence of the British model), and through *penetration* (pressure by external actors or interests such as the international banking community)[12]. However, convergence around the policy of privatization should not disguise the very wide differences which remain across Western Europe on the motives, extent, nature, methods and impact of the various privatization programmes (see above).

- *policy fashion*: the establishment of a new axiom - in this case, the inevitability and desirability of privatization which is now on the policy agenda of every West European government. The emergence of a policy fashion raises some interesting public policy questions: why was territorial centralisation the policy fashion of the 1950s but decentralisation that of the 1970s and 1980s? Why does neo-Keynesianism give way to neo-liberalism as the policy fashion? How did the idea of 'big is beautiful' come to be so powerful? And how to explain its replacement by the 'small is beautiful' fashion? Why has an increased sensitivity to certain aspects of supply-side economics (education and training) become a policy fashion in the 1990s? It would be highly instructive to explore the process by which the fashion of nationalisation of the 1940s and 1950s was superseded by that of indicative planning in the 1960s, only to be replaced by that of privatization and regulation in the 1980s and 1990s[13]. Part of the answer may lie in Hirschman's observation that any policy extensively pursued automatically sets up reactions which lead to its dismantlement[14]. Another part of the explanation for *policy diffusion* lies in the role of international organisations as well as transnational groups of economic advisors, administrative officials, academics, directly affected actors, and 'policy entrepreneurs'[15].

- *policy reversal*:[16] significant change in existing policies. Traditional models of public policy making are profoundly conservative, since they emphasise incrementalism as the dominant mode of policy making and underline the tendency towards *policy inertia* as well as the difficulties of *policy termination*. Policy is presented

12 I have borrowed the categories of Colin J. Bennet, 'What is Policy Convergence and What Causes It?', *British Journal of Political Science*, 21, April 1991, pp. 215-233.

13 For some interesting insights, see Peter Hall (ed.), *The Political Power of Economic Ideas: Keynesianism across Countries*, Princeton, Princeton University Press, 1990.

14 Albert Hirschman, *Shifting Involvements: Private Interest and Public Action*, Oxford, Basil Blackwell, 1985, pp. 170-171.

15 See Nancy C. Roberts, 'Public Entrepreneurship and Innovation', *Policy Studies Review*, Spring 1992, Vol. II(I), pp. 55-74.

16 Christopher Hood, *Explaining Policy Reversals*, London, Open University Press, 1994.

as balkanised and sectoralised and processed through policy networks of small groups of powerful actors, who are often highly institutionalised, and are bound together by self-interest and by a high degree of consensus upon major objectives. These actors enjoy largely symmetrical resources and engage in constant and bargained processes of adjustment in a non zero sum game. Major policy changes are excluded because they suggest lack of consensus or they may lead to upset in the policy network. Another school of public policy, greatly influenced by public choice, stresses the role of powerful interdependent interest groups, in collusion with budget-expanding bureaucrats, in defending and extending the public sector. The extension and radicalisation of the various privatization programmes point to the limitations of these two traditional approaches, and suggest that public policy specialists should pay more attention to the processes of change provoked by exogenous shocks, new ideas, new coalitions, technology, and even the exercise of political power (as in France and the United Kingdom).

- *policy linkage and policy spillover*: the linkage of a policy - deliberately or inadvertently - with other policies. Privatization has come to be linked with liberalisation, administrative deregulation, marketisation (the introduction of competitive markets within the public sector), customerisation (increasing the power of consumers in the production of public goods), public-sector reform, revenue raising. It has its own dynamic which creates new interests, strengthens some existing ones whilst weakening or marginalising others. This reconfiguration of interests, as the result of privatization, encourages or facilitates the pursuit of other linked policies: hence, spillover. There is now a powerful pro-privatization lobby in most West European countries comprising financial interests, public sector bosses anxious for autonomy, right-wing ideologues and politicians, and revenue-hungry governments. Spillover can be seen in another way: once one major West European country has implemented a radical programme of privatization, it will automatically press for similar programmes elsewhere - in the name of *reciprocity*. Why, for example, in an open European market should French and German investors be allowed to buy shares in British Telecom, but British investors are prevented from buying stakes in Deutsche Telekom or France Télécom? Functional spillover, but not in the sense understood in the neo-functionalist literature on the European Union, - however slow, sporadic or hesitant - appears to be an ineluctable part of European market integration.

- *policy slippage*: the gap between, on the one hand, overall ambitions and programmes, and, on the other, the programmes and practical outcomes. The various privatization programmes perfectly illustrate the phenomenon. In most countries - even the United Kingdom and France - slippage occurs between ambitions and programmes: constitutional, juridical, institutional, financial market, and political constraints have affected not only the timing and pace but also the extent and nature of the programmes adopted (see below). The failure to privatize 51 per cent of the Post Office in the United Kingdom and the slowing down of several major privatizations in France are reminders that even resolute governments with powerful resources may suffer policy slippage. The slippage between programmes and outcomes may also best be seen in Britain and France - the two most radical privatizers. Thus, one of the declared ambitions of the Thatcher and Chirac governments was to use privatization as a means of creating 'a property-owning democracy' imbued with 'an enterprise culture'. And, indeed, by the sale of shares at below market value and a series of attractively priced bonuses, a mass shareholding has been created in both countries. However, the impact of this mass shareholding has been very limited. Many new shareholders sold their shares immediately or within a year of purchase, and most have shares in only one privatized industry. In other words, privatization has widened but not deepened ownership. In both countries, no attempt has been made to confer any corporate power on the dispersed mass of small shareowners. And in both countries, inspite of the increase in the number of shareholders, the proportion of shares held by institutional investors (often foreign) continues to increase: wider shareholding masks, therefore, its increasing concentration. Finally, the cultural impact of privatization seems to have been negligible[17].

- *policy fiasco*: the pursuit of a policy which ends in ignominious consequences[18]. Recent literature on this phenomenon tends to analyse fiascoes in terms of policy outcomes. But the privatization programmes suggest that the fiasco may take place *during* the policy process. Thus, in October 1987, as the result of the world-wide stock exchange crash, the Chirac government had to abandon its privatization programme, and the British government had to buy back the shares of British Petroleum which it was selling at the time. The other big buyer of BP shares at the time was the Kuwait Investment Office - a financial body owned by the Kuwaiti government - the owner of one of BP's major rivals! The 1989 débâcle over the sale in Britain of the nuclear energy sector (it had to be shelved when the City made clear that it was not interested because of the risks involved) was no less politically embarrassing. The withdrawal, in November 1994, of the sale of 25 per cent of OTE, the Greek telecommunications monopoly, because of the state of the international financial markets, took place only one day after parliament had narrowly authorised the sale. It provides another example of the fiasco phenomenon. So, too, does the bungled plan to privatize the Italian telecommunications sector in 1994-95.

- *policy dilemma*: being forced to choose between conflicting, and sometimes unpalatable, options. An excellent illustration occurred in March 1995 in Britain at the time of the sale of the government's remaining 40 per cent stake in the country's two major electricity power generators. Five days before the sale, the government learnt that the angry industry's regulator was seriously considering the imposition of a more stringent price regime on the privatized electricity companies. The dilemma was acute: to postpone the sale would have been immensely costly in monetary (a major privatization involves vast expense) and political terms, to continue the sale but inform the public of the regulator's possible intervention would

17 Peter Saunders and Colin Harris, *op. cit.*

18 Mark Bovens and Paul 't Hart, *Understanding Policy Fiascoes*, Leiden, Department of Public Administration, 1992.

have led to a collapse in the price of the shares (and government receipts), to pursue the flotation without informing the public was fraught with political dangers. The government chose the third option. The regulator's report was published the day after the privatization, resulting in a dramatic fall in the share price (£3.5 billion or 12 per cent was wiped off the stock market value of the industry), immediate losses for over one million small investors and some major institutional investors, threats of legal action, and a huge political embarrassment. At a more general level, privatization confronts many governments with dilemmas because of the following phenomenon.

- *policy contradictions*: the pursuit of conflicting goals within a particular programme or between programmes. This feature is common in many policy areas, and privatization is no exception. Let us briefly mention four such contradictions. Firstly, 'popular capitalism' - giving people a share in the economy - has involved the creation of many new shareholders (in the United Kingdom, France, Portugal and even Italy and Germany) but no attempt has been made to grant any power to these shareholders. Secondly, privatization is frequently presented as a pedagogical exercise designed to sensitise citizens to the workings of the market, but selling shares to a mass public at below market price is unlikely to have this effect. Third, privatization has been presented as a mechanism of efficiency and competition, yet all privatizing governments have devised a battery of measures designed to limit the impact of competition: indeed, they have deliberately sought to protect some of their major privatized enterprises from market forces (see below). Finally, the major motive for privatization has been budgetary - the need to raise money - yet most of the share prices of the big flotations have been politically fixed at below market value to ensure their success.

- *policy perversity*: the unintended and sometimes unwelcome consequences of a policy. Once again, privatization perfectly illustrates the phenomenon. The purchase of British privatized stock by foreign (often French and public) enterprises - 'nationalisation by foreigners and through the back door' - provides the first example of policy perversity: a recent example is the bid, in March 1995, by Lyonnaise des Eaux for Northumbrian Water, one of the twelve privatized regional water companies. A second example of policy perversity is provided by Italy where the privatization of a significant part of the banking sector in 1993 led to the strengthening of the power of an already over-powerful financial actor - Mediobanca - which is precisely what the government was trying to avoid. At a more general level, privatization has been advocated as a means of clarifying the relationship between the state and its major firms whereas, for a variety of reasons, it has led to greater obfuscation: privatized firms have become increasingly *hybridized*, characterised by the interpenetration of national and international capital and of public and private interests (see below). Finally, privatization has been advocated as a means of reducing the role of the state in industry. However, as we shall see below, some privatized firms may be even more effectively monitored, if not directly controlled, than they were under public ownership - not a consequence predicted by the privatizers.

It would be easy to write an article on each of the above policy features of privatization. However, the purpose of the article is to focus on another policy feature - *policy paradox*. Nevertheless, it is important to keep these other features in mind, for they sometimes help to explain the many paradoxes evident in the various privatization programmes carried out in Western Europe.

## III. The Paradoxes of Privatization

Perhaps the policy phenomenon most clearly illustrated by industrial privatization is the *policy paradox*: 'a statement contrary to received opinion, seemingly absurd though, perhaps well founded' according to the *Oxford English Dictionary*. In truth, some of the paradoxes are country or sector specific and may be ephemeral or transient in nature. Some are more apparent than real. Some, however, raise very complex questions for policy makers, since they appear to be inherent in industrial privatization and highlight the conflicting pressures and tensions evident in the process.

The first paradox lies in the nature of political partisan support for privatization. Some right-wing parties have been hostile or sceptical (such as the MSI in Italy or the CSU in Bavaria) while left-wing parties in countries such as Spain and France have pursued fairly extensive partial privatization programmes. Thus, French Socialist governments, between 1982 and 1986, sold off numerous subsidiaries of public-sector industrial holding companies - the policy of *respiration* - and indulged in periodic sales of minority stakes in important public enterprises such as Total, Elf-Aquitaine, Rhône-Poulenc and CLF. Inspite of Mitterrand's election pledge of 1988 that his presidency would be characterised by a policy of 'ni-ni' (ni nationalisations, ni privatisations), 'back-door privatization' continued. Thus, in 1992, the state's stake in Total was reduced from 34 to 15 per cent, and a further tranche of Elf-Aquitaine was sold. Between December 1991 and May 1993 (when the right returned to office), the French Socialists raised FF 8 billion from sales of minority stakes.

A second political paradox is that several socialist governments, in the name of 'modernisation' and the need to conform to the exigencies of the single European market, carried out extensive policies of liberalisation and financial market deregulation and expansion, thus greatly facilitating privatization policies (in some cases, of their right-wing successors). The same socialist governments also granted public-sector managers greater autonomy to make their firms more profitable and competitive, thus rendering them more privatizable.

The third paradox, connected to the previous one, relates to 'crowding-out': the more successful privatization becomes as a policy option the more difficult it may be to implement. All governments, with the exception of those of the United Kingdom and France, must be sensitive to the capacity of the domestic - and even international - financial markets to absorb massive privatization programmes. A clear indication of the problem came in 1989 with the privatization of the British water companies - a huge financial operation - the impact of which was to oblige the Spanish government to sell a stake in Repsol, the state oil company, smaller than originally intended (*Financial Times*, 23 May 1991). With the gathering pace of privatization the problem of crowding out can only be aggravated. In 1994, for instance, West European governments sold more than 120 companies valued at some £40 billion, a programme which threatened to overwhelm the appetites of investors. It is instructive that in summer 1994 international investors had some difficulty in digesting two big insurance flotations in France (AGF) and Italy (INA). An estimated \$80 to \$150 billion worth of new privatized equity will flow into the markets between 1995 and 1999 - and most in four sectors (telecommunications, utilities, energy and insurance). With too much stock and too concentrated in limited sectors, there is a real danger, according to some financial advisers, of market saturation (*Economist*, 7 May 1994, 13 August 1994).

The role of public sector industrial managers as one of the principal motors of privatization provides the fourth paradox. In much of the neo-liberal and public choice literature, they are depicted as intrinsically inefficient, and derive job satisfaction from their political contacts, their respectable salaries, their strategies of budget maximisation or bureau expansion, the advantages of civil service status, and the knowledge that they are sheltered from the rigours of competition and protected from hostile take-overs. This was always a caricature of the general situation - even though in some Southern European countries the description may be apt. The various privatization programmes have revealed the crucial role of public sector managers in preparing for and advocating privatization - although in some cases in the United Kingdom they have ensured that the monopolistic or dominant position of their firm be protected after privatization! Some public managers see the sale of subsidiaries and of minority stakes as a means of *strengthening* their empires by divesting them of non-core activities and by raising capital. Some, such as Romano Prodi in Italy (IRI) and Jürgen Weber in Germany (Lufthansa), have insisted on the need for wide-ranging privatization, restructuring, rationalisation (through the sale of subsidiaries), and competition as part of a wider strategy of reshaping and modernising national capitalism. Others, such as Lord King (British Airways), George Jefferson (British Telecom) and Ian McGregor

(British Steel) introduced a private-sector logic into their enterprises long before official privatization, making them highly competitive and profitable[19].

A fifth policy paradox concerns the European Union. Privatization corresponds closely to the logic, if not to the letter, of the Treaty of Rome and of the single market, if only because it may (and does) become an impediment to the free flow of capital. Yet, privatization is most enthusiastically pursued by the British government which, in its public rhetoric, is the most hostile about the European Union. Zealous advocates of the European cause (such as the Greek and Italian governments), on the other hand, have often been singularly reticent about full-scale privatization. Furthermore, the greater the degree of privatization and deregulation at the national level - essential preconditions for European market integration - the greater is the need for reregulation at the European level. Paradoxically, the British government, which is always complaining about 'the bureaucrats of Brussels' is constantly demanding, in the name of reciprocity and 'a level playing field', European Commission or European Court intervention to ensure some sort of equality of treatment between its own privatized firms and the public sector competitor of its neighbours. Thus, when Alitalia, Air France or Iberia are given yet another capital injection by their respective states, the British government, on behalf of British Airways, demands Commission action[20]. The reaction of the Commission, which is divided and politicised, to competition-distorting aid to public sector firms has been inconsistent, incoherent and has sometimes appeared incomprehensible: certainly, the competition regime of privatized firms within the European Union remains unpredictable, and this unpredictability is often compounded by the nature of national regulatory regimes - a point to which we shall return. However, there is no doubt that the European Union is slowly imposing a regulatory framework upon many sectors, with the help of pro-competition governments such as the British.

Paradox six: privatization has often been presented as a means of strengthening national industry, but has, in several cases, merely facilitated takeovers by foreign companies. Indeed, several governments have not hesitated in selling public assets to foreign companies. Thus, the Spanish government in the mid-1980s sold SEAT to the Germans, the SKF ball-bearing plant to SKF Sweden, Puralator (a filter manufacturer) to the West German company AG in

19 Douglas Pitt, 'An Essentially Contestable Organisation: British Telecom and the Privatization Debate', in J.J. Richardson (ed.), *Privatization and Deregulation in Canada and Britain*, Aldershot, Dartmouth, 1990.

20 On this question see Konstantine Gatsios and Paul Seabright, 'Regulation in the European Community', *Oxford Review of Economic Policy*, Vol. 5 (2), 1989, pp. 37-60.

1986, Secornsa to Figitsu, MTM to Alstom-France, Enfersa to the Kuwaiti Investment Office, and ENSA (a truck maker) to Fiat. The widening of the international and European capital base of national industry has been encouraged or tolerated by many governments, even those, such as the French, which were traditionally hostile to foreign capital penetration. Thus, by the end of 1991, in France, foreigners held stakes of 11.5 per cent in Saint Gobain, 14.5 per cent in Paribas and 16.5 per cent in CCF - all privatized enterprises, and after 1993, the Balladur government introduced foreigners into the stable core shareholders (*noyaux durs*) of the newly privatized groups (see below). Foreign penetration, takeovers or alliances will be an inevitable process in sectors which are heavily rationalising such as telecommunications (British Telecom has a clearly stated and ambitious global strategy and has already linked up with MCI, the American long-distance carrier, whilst France Télécom and Deutsche Telekom have negotiated a highly controversial joint venture, suspiciously regarded in Brussels, to supply a range of telecommunication services, and hope for a second-stage link with Sprint, another American long-distance carrier), air transport and aeronautics (where there has been a flurry of mergers and acquisitions as well as investment and research alliances and joint ventures) and the automobile industry in which, for example, the privatized Rover group, after a brief flirtation with the Japanese, is now in the hands of BMW, the German car manufacturer. Other examples in Britain of privatized firms falling into foreign hands include Sealink Ferries which is now part of a Swedish group, the short-term export-credit insurance business of the Exports Credits Guarantee Department which, after privatization, was sold in 1992 to NCM, a Dutch group, and a small number of water companies which have been acquired by the French group Lyonnaise des Eaux. The danger of foreign takeover is, of course, heightened in European countries with inadequate financial markets or national institutional investors. And several governments, such as the French, the British, the Portuguese and the Italian, sensitive to nationalistic sentiment, have attempted to erect legal barricades against foreign penetration or takeovers of privatized firms (see below). Nevertheless, many of these barricades are either temporary, ineffective (thus, Spanish banks, through a policy of buying subsidiaries in Portugal, are quickly taking over that country's banking sector inspité of legal prohibitions) or are likely to become ineffective. Most European countries involved in major privatizations have recourse to the international capital markets, and sales take place simultaneously in the home financial market, London, New York and Tokyo. The internationalisation and liberalisation of financial circuits, the exigencies of the European open market, the multinationalisation of firms as well as the capital requirements of those firms and their governments are likely, in the long run to render obsolete the juridical obstacles placed by governments to prevent privatized firms from losing their nation identities[21].

There are, finally, four other major interconnected paradoxes which lie at the heart of privatization: the efficiency-competition paradox; the state interventionist paradox; the state withdrawal paradox; and the regulation paradox.

The efficiency-competition paradox may be stated briefly: privatization has often been advocated as a means of enhancing efficiency and competition. But the privatization programmes clearly underline, firstly, the complexity of the links between ownership, efficiency and competition. Secondly they reveal the limits to, and constraints upon competition imposed by privatizing governments. Let us consider each dimension of this paradox in turn. This is not the place to address the complex question of the relative degree of efficiency of public and private firms - it has already generated a vast (and controversial literature). However, two points are worth considering. Firstly, many private firms were nationalized because they had become bankrupt, and many were transformed into highly efficient firms under public ownership - the cases of Rolls Royce in the United Kingdom and of Usinor-Sacilor, the French steel group - spring to mind. Secondly, many public enterprises made enormous efficiency gains during state ownership: indeed, their successful privatization hinged on such gains. In truth, there are great difficulties in comparing the performance of public and private enterprises, because there are the inherent problems of isolating the ownership variable from a host of other factors which bear on performance and because the criteria for assessing performance may differ sharply: for example, low profitability is not necessarily inconsistent with efficient management. A 1995 study by Bishop and Green of British privatized utilities suggests that, on the basis of TFP (total factor productivity, which measures the relationship between the physical outputs of firms (for example, the number of telephone calls completed) and the physical inputs (capital, labour, materials) needed to provide them, growth varied considerably, with British Telecom enjoying high productivity and British Gas low productivity - lower than that achieved by public-sector groups such as the Post Office, British Coal and British Rail (*Economist*, 11 March 1995). The weight of evidence suggests that the nature of competition in the relevant sector is an important factor for efficiency, with private ownership appearing, on balance, to be relatively more efficient in competitive conditions. However,

21 Vincent Wright, 'The State and Major Enterprises in Western Europe: Enduring Complexities', in Jack Hayward (ed.), *Industrial Enterprise and European Integration*, Oxford, OUP, 1995, pp 334-359.

this brings us to the second dimension of the efficiency-competition paradox - that privatizing governments have placed constraints on competition.

In the first place, many governments are still reluctant or unable to privatize utility monopolies such as gas, water, electricity and telecommunications, and when they have done so, as in the United Kingdom, they have either protected their monopolistic position or ensured for them a dominant market position, and have, in all cases, insisted on the retention of social welfare obligations. Secondly, privatization often involves the sale of only subsidiaries or part of the equity of the public enterprise. Thirdly, even when only a minority stake is retained, it is sometimes invested, as in Belgium, with veto rights. Fourthly, governments have frequently imposed ceilings on the percentage of shares available to individual or institutional investors. Fifthly, caps have often been placed on the proportion of shares that foreigners can acquire (the figure varies from 15 to 49.5 per cent) in 'strategic' or defence related industries. Sometimes these caps are merely temporary (the case in France with the Chirac privatization programme of 1986 to 1988), and sometimes they are adjusted upwards (thus, the Portuguese government raised the threshold on total direct foreign ownership in several privatized industries from 10 per cent to 20 per cent and then to 35 per cent, whilst the UK government adjusted the foreign ownership cap on privatized Rolls Royce from 14.9 per cent to 29.5 per cent). It is also clear that in some cases the ceiling on foreign stakes has been violated - most notably in Portugal where the privatized banking sector has fallen increasingly under the direct or indirect control of the Spanish, and where a key part of the oil sector is falling into the hands of Total, the French group (*Economist*, *Financial Times*, 21 January 1994). However, in many countries the ceiling on foreign stakes is indefinite in duration (the case in the Balladur programme) and countries such as the United Kingdom have insisted on protecting or trying to protect their national industries against foreign predators: for instance, in 1987, the Kuwait Investment Office reduced its 21.6 percent stake in privatized BP after the government referred it to the Mergers and Monopolies Commission, whilst the government forced an American investor to reduce its stake in British Aerospace after it breached the 29.5 percent foreign ownership limit (*Independent*, 21 May 1994). The sixth major constraint imposed by governments on market competition lies in their attempt to structure the shareholding to prevent hostile takeovers. Almost all governments have retained a 'golden share' in those privatized industries which they might wish to defend, and several governments, including the French and Italian governments, have resorted on occasion to the creation in many privatized enterprises of a group of key institutional shareholders, chosen by the Finance Ministry, which have been encouraged to buy a certain share of privatized stock. Thus, when the Banque Nationale de Paris was privatized, no fewer than sixteen friendly institutional shareholders were allocated a total of 30 per cent of the stock. This core shareholding - *noyau dur* or *nocciolo duro* - is intended to forge strategic links with the privatized company and protect it against hostile takeover bids - in other words, against competitive market forces. Initially, in France, all the core shareholders were French (and many were close to the Gaullist party), but the Balladur programme has introduced major foreign enterprises into the ownership of privatized groups. Finally, as noted below, by a variety of means to ensure continuing *state* influence, privatized firms are shielded from the full force of competition.

Another aspect of the competition paradox is that privatization frequently leads to greater concentration rather than to greater competition. This is most visible in the industrial and banking sectors of Portugal and of Italy where there are only a very few big institutional and family-based industrial investors. The Banco Totta e Acores, privatized in 1989, has extended its hold over the Portuguese banking sector. And, in Italy, Mediobanco, the Milan merchant bank, has increased its influence over the country's financial system through its connections with the former state banks, Banca Commerciale Italiana and Credito Italiano. In 1995, it was also involved in an attempt to take over part of the telecommunications sector. But it may also be seen in the United Kingdom where BP has absorbed Britoil, BA has swallowed British Caledonian and then Dan Air, National Express has consolidated its hold on national bus transport and where British Aerospace acquired the privatized Rover group. In all cases, the assent of the pro-market Conservative government was required. In France, privatization has resulted in the strengthening of already powerful groups. The insurance group UAP provides a perfect example: by the end of 1994 it held stakes in Générale des Eaux, Paribas, Saint Gobain, Alcatel-Alstom, Elf-Aquitaine, BSN, Lyonnaise des Eaux, Air Liquide, Bouygues, BNP and Suez (it was the largest shareholder), and it was part of an extensive and complex pattern of reciprocal shareholdings which was designed to provide some protection against the market (*Le Monde*, 13 April 1994, *Economist*, 17 September 1994).

The state interventionist paradox goes to the heart of privatization: a radical reduction in the role of the state, through privatization (liberalisation and deregulation), requires strong state interventionism. Political will, political durability and political and administrative resources are essential for effective policy implementation[22]. In the United Kingdom the Thatcher government, elected in 1979, was ideally placed to push through privatization, and not only because the country had an extensive public sector to privatize, but also because the public sector was in the hands of the central state (in several countries many public utilities such as gas, water and electricity are under local control). Moreover, the United Kingdom has the biggest and best organised financial market in Europe, with major institutional investors and a traditional investment culture: this is certainly not the case in most West European countries. Of no less significance, however, has been the *political* situation of the United Kingdom since 1979:

- British Conservative governments since 1979 have defined ambitious privatization programmes as part of a wider economic political and ideological strategy, and have pursued this strategy with vigour and tenacity. Most other governments, with the exceptions of the Chirac government of 1986, the Greek New Democracy, the Swedish Conservative coalition government, and the Portuguese Social Democratic government, have been prudent privatizers inspired largely by budgetary considerations.

- British Conservative governments since 1979 have enjoyed continuity and durability - essential characteristics for the pursuit of radical policies. The only other radical privatizing government to enjoy such conditions was the Cavaco-Silva government in Portugal. Other radical privatizing governments - the Chirac government in France, and the right-wing governments in Sweden and Greece - were very short-lived.

- Constitutional and juridical constraints in Britain are non-existent. This is certainly not the case elsewhere. There would, for instance, be constitutional and legal questions raised in France by the privatization of public sector monopolies such as France Télécom. The privatization programmes of Chirac (1986-1988) and of Balladur (post-1993) were given the blessing of the Constitutional Council, even though it did insist on some modifications in the methods of privatization. Yet, it is revealing that Chirac and Balladur prudently avoided any attempt to privatize gas, electricity and telecommunications. In November 1993, the Conseil d'Etat declared that the employees of France Télécom carried out 'missions de service public', which implied that a majority of the capital had to remain in the hands of the state. The decision suggests that partial privatization is permissible (*Nouvel Economist*, 16 December 1994). Constitutional problems clearly slowed down or limited the privatization process in Germany. Not only are public utilities and even some public enterprises wholly or partially controlled by local authorities, but the public status of telecommunications, postal services and the railways are protected by the constitution. It took several years of politically delicate negotiations with

22 On the significance of an efficient administrative machine see OECD, *Greece 1991-1992*, Paris OECD.

the trade unions and the Social Democratic opposition (which came to gain a majority in the Bundesrat and was thus in a position to veto any constitutional proposal) before the Kohl government - one of exceptional durability by West European standards - could pass the necessary privatization legislation for Deutsche Telekom. The same lengthy process is now engaged for the postal services and the railways. Constitutional constraints were most apparent in Portugal. Its very extensive public sector had been created during the early revolutionary phase of democratic transition, and was given constitutional protection: nationalisations were declared to constitute 'an irreversible victory for the working class'. It required several years with the Socialist opposition before the irreversible was reversed and the necessary constitutional amendments were voted in parliament[23].

- In Britain, privatizing governments have been unvariably united on privatization, and have enjoyed a single party majority in parliament and the overwhelming support of the majority party. Only the proposed privatization of 51 per cent of the Post Office ran into serious difficulties, when several Conservative Members of Parliament voted with the political opposition, in 1994, in order to reject the government's proposal. But this was very exceptional. In Portugal and in France, too, conservative governments have faced no effective opposition to privatization either within the government or the majority coalition. Elsewhere in Western Europe, governments and right-wing coalitions have either been lukewarm or divided over radical privatization. The battles in the Berlusconi government over privatization mirrored those in previous Italian governments and in governments elsewhere in Europe: there were, for instance, major conflicts within the Kohl government over the privatization of Lufthansa, in the Gonzales government over the partial privatization of Telefónica, and the Papandreou government over the partial privatization of OTE, the country's telecoms monopoly.

- The British Conservative governments could count on the weakness of left-wing political and trades unions opposition, since, throughout the 1980s, both were weakened, demoralised and on the defensive. In several instances, the government was able to ignore trade union leaders' opposition to privatization by buying the support of their members through the issue of cheap shares to employees. Again, this lack of effective political opposition has not been the case in many other European countries: the left has either been in power or in coalition or entrenched at local level (where many public services are controlled), and the trades unions are often strategically placed to slow down the privatization process: thus, in France and in Germany, trade union support has been needed to change the civil service status of some public service workers. The political left and the trades

23 On the constitutional and legal dimensions of privatization, see the excellent article by Terence Daintith, 'The Legal Techniques of Privatization', in Thomas Clarke (ed.), *International Privatizations: Strategies and Practices*, Berlin De Gruyter, 1994, pp. 43-75; on the German case, see Gunner Folke Schuppert, 'La privatisation des chemins de fer et de la poste en Allemagne: examen d'un repli par étapes de l'Etat', in Institut International d'Administration Publique, Dossiers et Débats, *Délocalisations administratives*, Paris, 1995, pp. 27-35.

unions have also sometimes been able to mobilise wider coalitions to slow down or limit privatization programmes: the Balladur government's problems over the privatization of Renault, of Air France and of Aérospatiale - all politically sensitive public enterprises - can be partly attributed to this fact. So, too, can the failure of the Greek government to privatize even a minority stake in the country's telecommunications monopoly.

But it is not only the political will and durability of governments as well as the absence of constraints which explain the success of the British privatization programmes. Four other political factors must also be considered:

- a willingness to adapt a conflictual confrontation style of policy making to push through the programme. Contrast this with the German situation where a negotiated process has dominated the programmes. Interestingly, even in East Germany the initial brutal phase of privatizing state enterprises by the Treuhand was quickly replaced by a more traditional consensual mode of decision making[24]. Similarly, the Balladur government learned that confrontational politics might be very counter-productive for the pursuit of his privatization ambitions.

- a capacity to restructure existing policy networks to facilitate the implementation of the programmes - either by excluding or marginalising opponents (trades unions and middle managers), or by reinforcing existing or including new pro-privatization actors (public-sector bosses, financial interests, right-wing ideologies)[25].

- a systematic attempt to overcome widespread public disquiet or even hostility (the privatization of water, gas and electricity were, and remain, vastly unpopular according to all opinion polls) by a policy of selling privatized stock to a mass public - at below market price. This policy of selling privatized stock too cheaply has been seriously criticised (notably by the House of Commons Public Accounts Committee which has a Conservative party majority), but it has proved highly successful, since the number of shareholders has increased from two to thirteen million. France and now other countries have also appreciated the political advantages from such a policy. The advantages may, however, be short-term or fluctuating, according to the state of the financial markets.

- the constant recourse to a legitimising discourse for the programme. This discourse has two distinct elements. The negative element is explicitly anti-statist and exploits the poor image of the public sector. The positive elements lay stress on efficiency, entrepreneurship, individual property rights, freedom, and, increasingly, the

24 Josef Esser, 'Germany: Symbolic Privatizations in a Social Market Economy', in V. Wright, *op. cit.*, pp. 118-121.

25 Stuart Butler, 'Changing the Political Dynamics of Government', in Steve H. Hanke (ed.), *Prospects for Privatization*, New York, Academy of Political Science, 1987, pp. 10-11; J.J. Richardson, W. Maloney and W. Rudig, 'The Dynamics of Policy Change: Lobbying and Water Privatization', *Public Administration*, Vol. 70 (2), 1992, pp. 157-176.

need for modernisation and adjustment to the changing demands of the international market. With the exception of the Chirac government of 1986-1988, no other government has developed such a wide and coherent legitimising strategy.

The British case suggests, therefore, that radical privatization may require a strong state not only in terms of being unconstrained or of defining radical ambitions, but also in actively laying the necessary political groundwork. Other countries have found themselves much more constrained, either constitutionally or politically, in pursuing ambitions which are more limited.

The state has to prepare not only the political environment for privatization. It is also required to establish the industrial and financial preconditions. At the *industrial* level, the state must become involved in the privatization process at several levels. In the event of off-market sales, it must find suitable purchasers - and this has not always proved easy. In 1989, the British government found it impossible to sell the nuclear energy industry, and in Italy, Merril Lynch was hired in October 1992 by the government to find a big domestic or foreign buyer to absorb part or whole of IRI's holding, but none could be tempted to make an offer. The Portuguese government failed to sell a bank, a cement producer and a steel company in April 1993 because the bids were too low or non existent (*Financial Times*, 14 April 1994). The privatization of British Coal was slowed down by the same problem: the problem was resolved by the government granting an unsecured loan to the purchaser at a time when it was unavailable in the financial market - an act which has provoked an official parliamentary investigation (*Independent*, 6 April 1995). In some cases - irrespective of the method of privatization - the state is obliged to provide new management, deregulate the sector, and restructure the major holding groups. This has been the case in France, Spain, and in Italy: hence, the creation of Telecom Italia in May 1994, involving the merger of Sip, the major domestic network operator, and four other state companies, as a precondition for the sale of the state's shareholding in Stet, the national telecommunications utility. Often a particular enterprise has to be restructured before privatizations. The most extreme example is that of British Rail which has now been split into 27 separate 'profit centres' to provide the basis for businesses for franchising, in an operation which even friends of the government concede to be a gigantic mess. Other tasks of the state before privatization include changing the legal status of public groups into joint stock companies, establishing or rebalancing the pricing structure of the industry (hence, the inflated increases in gas and electricity tariffs in Britain to increase profits and facilitate privatization, and the May 1995 promises on *future* rail fares to calm angry public opinion), and renegotiating the statute of the workers (a politically difficult task in countries such as France and Germany). More importantly, rendering a firm privatizable may require expensive redundancy programmes for the workers (hence, the French government's promise to continue a state-financed early retirement benefits scheme for workers *after* privatization in order to gain the support of the unions for the denationalisation of Usinor-Sacilor), the writing off of debts and massive recapitalisation programmes for the enterprises - which invariably provoke the anger of foreign rivals and the suspicion of the European Commission. The politically controversial French aid packages to Groupe Bull, Air France, Renault and Crédit Lyonnais, which are a prelude to privatization, have to gain the backing of the Commission (and probably of the European Court).

Preparing for privatization may, therefore, be an immensely time-consuming and expensive exercise requiring constant state intervention: Thomson's restructuring programme required FF 8 billion in 1993; redundancy payments and fees to outside advisors in the British Rail privatization programme cost the British government an estimated £650 million (*Observer*, 1 May 1994). It may also be politically dangerous. The restructuring plan of Air France led to angry strikes, undignified government retreat, the resignation of the chairman of the company, and a slowing down of the privatization process. Similarly, in the same year, the planned closures of coal mines in Britain, as a condition for privatization of the industry, triggered a trades union and parliamentary uproar which pushed the government into (temporary) retreat.

The state is also inevitably involved in preparing the *financial* preconditions and conditions for privatization. Firstly, local stock exchanges must often be modernised, deregulated and expanded, and campaigns to 'raise equity awareness' organised. *Paradoxically, therefore, the state may have to strengthen the private sector before it can pursue a successful privatization programme.* Secondly, the state must choose the financial advisors (for the immensely lucrative Deutsche Telekom sale more than twenty international banks were in competition [*Economist*, 1 October 1994]) and, if needs be, underwriters for the various privatizations, and it must also decide whether the stock should be floated simultaneously on the local and international financial markets. Thirdly, the state must decide on the *method* of privatization of an enterprise: off-market sale to another company? sale by tender? fixed price offer? worker or management buy-out? a public flotation, and, if so, of a majority or minority of the stock? and at what price? Fourthly, the state must decide the *timing* of the privatization - an intrinsically difficult decision given the frequently turbulent state of the financial markets.

Finally, the state must define the future *market situation* of a privatized company - in terms of *market position* and of *ownership*. The question of the future market position of a privatized enterprise arises most acutely when the firm enjoys a dominant or monopolistic position. Quite simply, should the firm be split up? What degree of deregulation in the sector should be encouraged or imposed? What regulatory framework should be devised if the monopolistic position is retained? Defining future ownership raises very delicate political questions: should a cap be place on foreign stakes, and at what level, or for how long? Should a proportion of the shares be reserved for employees and the public? Should a ceiling be imposed on single institutional investors? Should a core of stable institutional investors be constituted? And how to ensure that legal stipulations are respected? Decisions on these issues have an impact on the structure of domestic capitalism, and, more immediately, on the value of the company to be privatized. For that reason all governments have had to pay particular attention to them. The inability to dispose of IRI's 61 per cent stake in Stet, the telecommunications holding company, in 1995, was due to the government's failure to define the future regulatory regime of the sector. Each major privatization is, therefore, a profoundly political act. The problem is that governments are often locked into reconciling irreconcilable objectives when pursuing their programmes - a point taken up in our conclusion. There is no doubt, however, that all governments have deliberately attempted to shape the structure of their domestic markets - often by market distorting and sometimes illegal privatization operations (for instance, the under-the-table financial inducements given to British Aerospace by the government to buy the Rover car group - even though the House of Commons Public Accounts Committee clearly demonstrated that the official price being paid was £56.5 million below market value and that bigger offers had been made ...).

The state is, therefore, constantly and intimately drawn into each major privatization, both *before* and *during*, because the stakes go beyond privatization itself. But, the state may also choose to, or is obliged to retain a relationship with an enterprise even *after* its privatization. This brings us to the state withdrawal paradox: privatization is alleged to lead to 'state retreat' but it often merely underlines the limits to that retreat.

The limits of state withdrawal may be seen at two levels: the general and the specific. At the general level the state continues to have a massive impact on all firms - whether public, private or privatized - by its:

- monetary, budgetary and fiscal policies
- competition policy
- labour market policy
- education and training policies
- public infrastructure policies
- research and development policies
- public procurement policies (notably, but not exclusively, in the defence sector)
- energy policies
- environmental policies
- urban planning policies
- consumer protection policies
- health and safety policies
- international trade policies
- exports-supports policies.

Whilst the nation state may be increasingly constrained by internationalisation, multinationalisation, liberalisation and Communitarianisation, it remains a central actor in determining the fate of most major national firms - even after privatization. The continuing troubled relationship between the British government and the privatized British Airways perfectly illustrates the inextricably linked nature of the relations between governments and their major firms[26].

The limits to state withdrawal may also be seen at the specific level of privatization. And in a variety of ways:

- the reluctance or inability to privatize public utility monopolies - only Germany, Britain and Portugal, have gone down this path (although the Portuguese have no intention of denationalising the postal services, the railways or the national airline). France, a radical privatizer, has explicitly ruled out the denationalisation of France Télécom and of the railways.

- the widespread policy of partial privatization, involving the retention of a majority of shares (the policy generally pursued in Spain) or of a blocking minority (the policy of the Belgium government for strategic industries).

26 Thus, British Airways was allowed to consolidate its dominant market position by absorbing two of its small competitors. However, relations soured in 1991 when, as the result of a trade liberalisation deal with the USA, the British government allocated some of British Airways' slots at Heathrow airport to American carriers. The firm responded by cancelling its annual subscription to the Conservative party.

- the right of the state to veto the sale of shares above the threshold defined by the privatization legislation, or in certain sectors if it is judged to be 'against the national interest'.

- the retention of a 'golden share' or *action spécifique*, which confers upon the state certain veto rights 'to protect the national interest'. The British, French, Portuguese and Italian governments have all retained a golden share in the major privatized strategic industries - although the duration and conditions of the share vary from country to country, have differed in the same country (in France, the Chirac government limited their applicability to five years whilst the Balladur government made them of indefinite duration), and may change according to the sector in each country (the case in Britain). Nor is it clear when the veto would be used: in the United Kingdom the government has a golden share in ten major privatized companies, but it has yet to exploit it (even the much criticised BP takeover of Britoil was tolerated). More left-wing or nationalistic governments may discover in the golden share a useful instrument of *dirigisme* ...

- the right of the state to appoint directors (in some rare cases, a majority) to the board of directors in major privatized firms - a right used everywhere in Western Europe, although the role of these state appointed directors varies enormously from country to country.

- the continuing role played by managers appointed by the state before privatization. It is worth noting that in France a great majority of privatized enterprise managers have been recruited from the state sector: this was the case, at the beginning of 1995, of ten of the eleven major privatized firms, almost all of whom were products of the Ecole Polytechnique or the Ecole Nationale d'Administration and the *grands corps de l'Etat*. The process of *pantouflage*, involving the appointment of politically sensitive public officials to head private financial and industrial groups, is one of the distinguishing characteristics of French capitalism, and has, in no way, been weakened by privatization[27].

- through the regulation of the general environment and activities of the privatized enterprises, and the continuing ability to regulate the regulators.

This last point brings us to the final paradox of privatization: *the regulation paradox*[28]. All West European firms are increasingly caught in a series of concentric circles of regulation, of a direct and indirect nature: international, European Union and national. Deregulation in one direction has been accompanied by regulation and reregulation in other directions. This is not the place

27 Michael Bauer and Bénédicte Bertin-Mourpt, *Les Enarques en Entreprise de 1960 à 1990: Trente Ans de Pantouflage*, Paris, CNRS, 1994.

28 I am greatly indebted to the work of Giandominico Majone on this paradox. See especially his 'Paradoxes of Privatization and Deregulation', *Journal of European Public Policy*, Vol. 1 (1), 1994, pp. 53-69.

to explore all the ramifications of 'the rise of the regulatory state'[29] or even the barrage of regulatory controls that now constrain all firms - public or private. Suffice to state that privatization does not release the firm from those controls. Moreover, and here lies the paradox, privatization may even entail *increased* state regulation - albeit of an indirect nature. This is the case in the United Kingdom for certain sectors, and is likely to be the case elsewhere in Western Europe when monopolistic or dominant firms are transferred to the private sector with their market positions largely intact. Without a regulatory framework in place international investors are unlikely to be enthusiastic purchasers of privatized stock (*Financial Times*, 31 January 1995) on the privatization of Deutsche Telekom and the British electricity generators). The United Kingdom government gave inadequate thought to competition when it privatized gas, water, electricity and telecommunications, and it defined vague and loose regulatory regimes for each of them. A semi-autonomous regulatory agency was established (OFGAS [1986], OFFER [1990], OFTEL [1984], OFWAT [1989]) for each sector whose attributions and decisions were subject to the control of the minister. The agencies have been much criticised for being too gentle with the regulated industries, especially over quality, high dividends, prices, and the escalating salaries of the top managers. And, in some cases, accusations of regulatory laxity appear to be justified. Yet, there is no doubt that the general tendency has been towards a widening and deepening of the regulatory net - motivated by the competitive zeal of some regulators and by sustained political pressures. This political pressure was such that Prime Minister Major was obliged, in September 1994, to organise a meeting of key ministers to discuss government policy towards the privatized utilities and

29 Giandominico Majone, 'The Rise of the Regulatory State', *West European Politics*, Vol. 17 (3), July 1994, pp. 77-101. See also, Gary Fromm (ed.), *Studies in Public Regulation*, Cambridge, Mass., MIT Press, 1981; Elizabeth E. Bailey (ed.), *Public Regulation. New Perspectives on Institutions and Policies*, Cambridge, Mass., MIT Press, 1987; John Francis, *The Politics of Regulation: A Comparative Perspective*, Oxford, Basil Blackwell, 1993; Giandominico Majone (ed.), *Deregulation or Regulation? Regulatory Reform in Europe and the US*, London, Pinter Publishers, 1990; L. Hancher and M. Moran (eds.), *Capitalism, Culture and Economic Regulation*, Oxford, Clarendon Press, 1989; C. Graham and T. Prosser, *Privatizing Public Enterprises: Constitutions, the State and Regulation in Comparative Perspective*, Oxford, Clarendon Press, 1991; A. Peacock (ed.), *The Regulation Game: How British and West German Companies Bargain with Government*, Oxford, Basil Blackwell, 1989; Keith Hawkins and John M. Thomas (eds.), *Making Regulatory Policy*, Pittsburgh, P.A., University of Pittsburgh Press, 1989; on regulation at the European Union level see Konstantine Gatsios and Paul Seabright, *op. cit.*; G. Majone, *The European Community as a Regulatory State*, Florence, Academy of European Law, 1994; Renaud Dehousse, 'Integration v Regulation? On the Dynamics of Regulation in the European Community', *Journal of Common Market Studies*, Vol. XXX (4), December 1992, pp.381-402; and, of course, D. Vogel, *National Styles of Regulation*, London, Cornell University Press, 1986.

their regulation (*Sunday Times*, 4 September 1994). There is certainly no evidence of collusion or 'capture': rather, there is a fluid, politicised, even personalised and bargained game between actors with different resources[30]. Even on the critical issue of asymmetrical information, there is evidence to suggest that the regulators are slowly acquiring, sometimes with difficulty, greater knowledge of the various activities of their enterprises - and certainly more than ministers and their officials enjoyed before privatization. Indeed, one could legitimately argue that agency capture was sometimes more in evidence under public than under private ownership. The constant intervention of the regulatory agencies in an increasing number of activities of the privatized utilities has given rise to some spectacular public rows (notably in the gas and telecommunications industries), and it has even been suggested by the utilities, with some exaggeration, that the introduction of greater competition into each sector, together with the tightening of the regulatory screw are tantamount to a violation of the implicit contract on which privatization was based[31]. What is equally clear is that most of the major decisions relating to the regulated bodies are carefully monitored by the government which has not hesitated, on occasion, to mediate unofficially between the regulator and the regulated bodies (for example, in the public row between OFGAS and British gas in March 1992) and periodically to exploit its official powers to redefine the regulatory regimes of each of the privatized utilities. Thus, one of the alleged advantages of privatization - the removal of key industries from the political agenda - has proved largely illusory[32]: as the Chairman of Thames Water, the biggest of the ten privatized water companies, declared, "the concern of the industry is that, without justification, and after too short a period, the regulator is heading in the direction of a role uncommonly like the government role of yesterday, both in substance and time scale" (*Financial Times*, 18 December 1991). Thus,

30 The best account is Mathew Bishop, John Kay and Colin Mayer (eds.), ***The Regulatory Challenge***, Oxford, OUP, 1995; see also Michael Beesley, ***Regulating Utilities: the Way Forward***, London, IEA, 1994; Dan Corry, David Souter, Michael Waterson, ***Regulating our Utilities***, London, Institute for Public Policy Research, 1994; John Kay and John Vickers, 'Regulatory Reform in Britain', ***Economic Policy***, 7, 1988, pp. 285-351; C.D. Foster, ***Privatization, Public Ownership and the Regulation of a Natural Monopoly***, Oxford, Basil Blackwell, 1992.

31 This is one of the themes of Cento Veljanowski, ***Regulators and the Market***, London, Institute of Economic Affairs, 1991. See also his ***The Failure of Industry Regulation in the United Kingdom***, London, European Economic Forum, 1993.

32 Tony Prosser, ***Nationalized Industries and Public Control. Legal, Constitutional and Political Issues***, Oxford, Basil Blackwell, 1986, p. 74; Tony Prosser, 'Regulation of Privatized Enterprises: Institutions and Procedures', in L. Hancher and M. Moran, ***Capitalism, Culture and Economic Regulation***, Oxford, Clarendon Press, 1989, p. 147; William A. Maloney and Jeremy Richardson, 'Post-privatization Regulation in Britain', ***Politics***, 12 (2), 1992, pp. 14-20; Michael Moran and Tony Prosser, ***Privatization and Regulatory Change in Europe***, Buckingham, Open University Press, 1994, pp.153-154.

just as left-wing governments paradoxically laid the ground for the privatization programmes of their right-wing successors, so right-wing governments may be, through the emergence of effective regulatory agencies, providing their left-wing successors with future effective instruments of state interventionism.

## IV. Some Tentative Conclusions

A number of general conclusion emerge from the above analysis. The first is that privatization, which is driven by economic and technological imperatives, is an eminently political process. It is political in a number of ways: it redistributes property rights and potential power; it is shaped by political ideology and it is mediated by national political institutions, constitutions, party politics, interest group configurations and bureaucracies; it alters the institutional framework and policy networks through which citizens articulate, mediate and promote individual and collective actions[33].

The second general conclusion is that privatization has been dominated by state presence - before, during and after the process. This continuing presence of the state raises the complex question of the relationship between ownership, influence and control. Assertions about the lack of autonomy of public sector bosses may be true, and there is no doubt that many public sector bosses have favoured privatization as a means of escaping from politically imposed objectives, of gaining easier access to the international capital markets, of facilitating alliances, mergers and acquisitions, of weakening the surveillance of Brussels, and of removing barriers to changes in corporate culture (see for example, the interview with the President of Elf-Aquitaine in *Financial Times*, 28 January 1994). But lack of autonomy is not universally true. Indeed, there is evidence of the growing autonomy of public sector bosses throughout Western Europe. Francis Mer, chairman of Usinor-Sacilor, the state-owned French steel group, could claim that the privatization would have little impact on the management of the group: "we are run like a private-sector company. There is no interference from the state" (*Financial Times*, 28 October 1994). A similar claim was made by the Chairman of Repsol, the Spanish public sector oil group (*Financial Times*, 23 May 1991). It is worth noting that in France dur-

33 Ellen Pint, *op. cit.*; Harvey B. Feigenbaum and Jeffrey R. Henig, 'The Political Underpinnings of Privatization', *World Politics*, Vol. 46 (2), January 1994, pp. 185-208; Joel D. Wolfe, *op. cit.*.

ing the 1970s public banks enjoyed almost complete autonomy whilst several major private industrial enterprises were the object of constant state *dirigisme*. Indeed, it has been claimed that the enterprises nationalised by the Socialists in 1981 enjoyed, after 1984, greater freedom from state control than they had under private ownership during the Giscard d'Estaing presidency[34].

France is not the only European country in which public enterprises have constituted 'Etats dans l'Etat', independent fiefs ruled by powerful barons who dictated their terms to their nominal political masters: 'agency capture' was a well known phenomenon under public ownership. However, as we noted above, new modes of regulation may, paradoxically, endow the state with better instruments of influence over privatized industries than traditional ministerial control over nationalised industries. It would appear that the autonomy of a private or public manager may hinge less on ownership than on the nature of the political system, the national industrial culture, the prevailing political climate, the market position of the industry, its financial situation, its perceived strategic value, its dependence of public procurement policy, and on the nature of the product. If the good produced is seen as a public good - and water, electricity, gas and telecommunications appear to be so - the industry will incur social welfare costs and remain in the political domain.

This leads to our third major conclusion: that privatization has triggered a debate about the limits of privatization. Constitutional courts and ordinary courts have been called upon to define the inalienable arena of public activity, and their responses have underlined the profound philosophical differences about the conception of the state across Western Europe. This, in turn, raises difficult questions of how to resolve the tensions which result from attempting to reconcile the demands of the international market place and deep-seated national prejudices about the proper role of the state[35].

The fourth major conclusion relates to the increasing obfuscation which continues to characterise the relationships between the state and its major firms. Privatization was designed in some countries to clarify, simplify and

34 Vincent Wright, 'The Nationalization and Privatization of French Enterprises, 1981-1988', *Staatswissenschaften und Staatspraxis*, No. 2, 1990, pp. 195-198.

35 On the general issue of public-private interaction see two excellent articles by Arnaud Sales, 'The Private, the Public and Civil Society: Social Realms and Power Structure', *International Political Science Review*, Vol. 12 (4), 1991, pp.295-312, and by Martin Rein, 'The Social Structure of Institutions: Neither Public nor Private', in Sheila B. Kamerman and Alfred J. Kahn (eds.), *Privatization and the Welfare State*, Princeton, Princeton University Press, 1989. There is a good discussion also in Peter Self, *Government by the Market? The Politics of Public Choice*, London, Macmillan Press, 1993.

stabilise those relationships. The fluid and sometimes unpredictable nature of developing regulation, together with two other indirect consequences - hybridisation and the blurring of the public-private boundary - have aggravated this problem[36]. These twin phenomena have resulted from a series of complex operations: the internationalisation strategies of semi-privatized or wholly privatized firms, through acquisitions, mergers, share swapping, joint research and investment ventures - often with public companies; the penetration of several privatized companies by state interests, state personnel and state potential vetos. Many major national private industrial groups are thus part international and part public.

The final general conclusion is that privatization does not necessarily reduce complexity, acrimony, politicisation or uncertainty in the relations between states and their major enterprises. The British experience suggests that the problems of complexity, acrimony, politicisation and uncertainty will not disappear with wholesale radical privatization. The new modes of regulation are fluid, political (often personalised), bargained and sometimes unpredictable - not unlike those which prevailed under nationalisation.

Political, state-dominated, obfuscated, complex and uncertain - these are amongst the major characteristics of the privatization programmes being carried out in Western Europe. Given the ambitions invested in privatization this is indeed a highly paradoxical situation. Some of the paradoxes described may be transient - the result of partial privatization programmes which are destined to become complete - and some may be country specific. Thus, the continued state's presence amongst the management of privatized companies is specific to France, whilst the concentration of industrial and financial power and the limitation of competition as the result of privatization is a feature of Italian privatization). Some paradoxes are also more apparent than real: thus, the hostility of the United Kingdom towards the European Union is directed to the political and social ambitions of Brussels and not towards it furthering of an open and integrated market in which privatization has its logic. Finally, some of the paradoxes may be explained by the policy features outlined in Part II of this article. Thus, policy linkage to internationalisation, liberalisation and deregulation partly explains the hybridisation of privatized firms and the paradox of obfuscation. Policy perversion - unintended consequences - explains several

36 For a recent discussion on the public-private interpenetration see James A. Caporaso and David P. Levine, *Theories of Political Economy*, Cambridge, CUP, 1992; Jan-Erik Lane (ed.), *State and Market: The Politics of the Public and the Private*, Londen, Sage Publications, 1985; Jan Kooiman, *Modern Governance: New Government-Society Interaction*, London, Sage Publications, 1993.

paradoxes, such as the purchase of privatized shares by foreign public enterprises, which undermines one of the declared intentions of privatization - the protection of national industry.

However, the above article also suggests that some of the more profound paradoxes are of a general and permanent nature and may be inherent in the privatization process itself. Privatization has been driven by several motives and shaped by multiple objectives: maximising revenues from sales whilst ensuring the political legitimacy of privatization by selling cheaply to a mass public; accepting the logic of European Union and international market pressures whilst protecting national industry; wishing for a mass shareholding in the name of popular capitalism but ensuring greater managerial autonomy. The conflicting tensions are no less apparent in the new regulatory bodies which exist in Britain and which are destined to exist elsewhere as the liberalisation and privatization of sectors dominated by national monopolies proceeds. Like politicians with nationalised industries, regulators of privatized industries must attempt to reconcile the interests of the nation (protection against foreign predators), managers (stability and profits), shareholders (dividends), consumers (quality and prices), workers (safety), citizens (pollution control, for example), and politicians. They must juggle with these conflicting interests while confronting the regulatory dilemma: gaining access to a regulated enterprise may require lightening the regulatory regime - which may lead to accusations of collusion - whilst a tighter regulatory regime may gain the regulator greater public credibility but may block access to information - an essential ingredient of effective regulation. The paradoxes are, therefore, ultimately rooted in the inherent tensions between nation and market place, between public and private, and between the conflicting demands of a pluralistic society. Privatization has many advantages but it is no policy panacea. Indeed, it suggests that not only are yesterday's problems today's policies, but that today's solutions may be tomorrow's problems - another discouraging feature of much of public policy.

## Biographical Note

Dr VINCENT WRIGHT was educated at the London School of Economics and the Institut d'Etudes Politiques in Paris and taught at the London School of Economics before taking up his present post as Official Fellow at Nuffield college, Oxford. He has also taught at several European and American universities, and at the European University Institute in Florence. He has written extensively on European and, more especially, on French and British affairs. He is author and editor of several books, has written articles for major European and American journals, and is the joint editor of West European Politics, a leading journal in its field.

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